TAB 8

APPENDIX A – NH 271 EXHIBITS

EXHIBIT 69

(Pricing Declaration of BayRing & Network Plus)

PUBLIC VERSION

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January 18, 2002

VIA OVERNIGHT DELIVERY

DATE STAMP & RETURN

Debra Howland
Executive Director and Secretary
New Hampshire Public Utilities Commission
8 Old Suncook Road
Concord, NH 03301

Re: Docket No. DT 01-151, Review of Verizon New Hampshire's 271 Application

Dear Ms. Howland:

Enclosed for filing in the above-referenced proceeding are an original and eight (8) copies of the Pricing Declaration of Freedom Ring Communications, L.L.C. d/b/a BayRing Communications ("BayRing") and Network Plus, Inc. In addition, a diskette that contains an electronic copy of this filing in Microsoft Word is enclosed.

Please date-stamp the enclosed extra copy of this filing and return it in the attached self-addressed, postage prepaid envelope provided. Should you have any questions concerning this filing, please do not hesitate to contact Harisha J. Bastiampillai at (202) 424-7869.

Respectfully submitted,

Eric J. Branfman
Philip J. Macres
Harisha J. Bastiampillai

Counsel for Freedom Ring Communications, L.L.C.
And Network Plus, Inc.

Enclosures

Cc: Service List

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N.H. PUBLIC UTILITIES COMMISSION

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Verizon-NH **271 Application**	))))	**Docket No. DT 01-151**

PRICING DECLARATION OF BAYRING AND NETWORK PLUS

Pursuant to the revised procedural schedule as issued by the facilitator, Mr. Paul Hartman, in the above-referenced proceeding, Freedom Ring Communications, L.L.C. d/b/a BayRing Communications ("BayRing") and Network Plus, Inc. ("Network Plus") ("Joint CLECs"), by their attorneys, hereby submit their Pricing Declaration to Verizon New Hampshire's ("Verizon") 271 Checklist Declaration ("Verizon's Declaration"), as filed on July 31, 2001, and its compliance with the market opening Checklist items embodied in the fourteen point Competitive Checklist of Section 271 of the Communications Act ("Act").[1]

I. THE DECLARANTS

1. My name is Benjamin P. Thayer. My business address is 359 Corporate Drive, Portsmouth, New Hampshire 03801. I have been employed by BayRing since 1996 and currently am Chief Operating Officer. In this capacity, my responsibilities include complete oversight of all operations at BayRing.

2. My name is Lisa Korner Butler. My business address is Network Plus, 41 Pacella Park Drive, Randolph, Massachusetts 02368. My business telephone number is (781) 473-2977. I am employed by Network Plus as Vice President Regulatory and Industry Affairs. In this capacity, I am responsible for government and regulatory affairs at the federal and state levels. My primary

1 47 U.S.C. § 271(c)(2)(B)(i-xiv) ("Competitive Checklist").

goals as the regulatory affairs manager are to advance and protect the regulatory needs of competitive carrier interests, raise and refine public awareness about Network Plus and its products, and ensure consumer satisfaction. In addition, I am responsible for obtaining state regulatory approval to conduct business as a competitive local exchange carrier ("CLEC"), negotiating interconnection agreements with incumbent local exchange carriers ("ILECs") and assuring that Network Plus complies with all federal and state rules and regulations.

II. COMPETITIVE CHECKLIST ITEM 2 (UNE Pricing): Verizon Does Not Satisfy Checklist Item 2 and its Rates are Not in the Public Interest Because Its UNE rates Are Not Forward Looking and Too High to Open the Door For Local Competition in the Residential Marketplace.

3. Checklist item 2 of section 271 states that a BOC must provide "[n]ondiscriminatory access to network elements in accordance with the requirements of sections 251(c)(3) and 252(d)(1)" of the Act.[2] Section 251(c)(3) requires LECs to provide "nondiscriminatory access to network elements on an unbundled basis at any technically feasible point on rates, terms, and conditions that are just, reasonable, and nondiscriminatory. . . ."[3] Section 252(d)(1) requires that a state commission's determination of the just and reasonable rates for network elements shall be based on the cost of providing the network elements, shall be nondiscriminatory, and may include a reasonable profit.[4] Pursuant to this statutory mandate, the FCC has determined that prices for unbundled network elements (UNEs) must be based on the forward looking total element long run incremental cost (TELRIC) of providing those elements.[5]

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2 47 U.S.C. § 271(B)(ii).

3 *Id.* § 251(c)(3).

4 *Id.* § 252(d)(1).

5 *See Local Competition First Report and Order*, 11 FCC Rcd at 15844-47, paras. 672-78; 47 C.F.R. §§ 51.501 *et seq.* (1999); *see also Line Sharing Order*, 14 FCC Rcd at 20973-81, paras. 131-57 (concluding that states should set the prices for line sharing as a new network element in the same manner as the states set prices for other UNEs).

4. Although the United States Court of Appeals for the Eighth Circuit stayed the FCC's pricing rules in 1996,[6] the Supreme Court restored the FCC's pricing authority on January 25, 1999, and remanded to the Eighth Circuit for consideration of the merits of the challenged rules.[7] On remand from the Supreme Court, the Eighth Circuit concluded that the FCC's use of a cost forward looking cost methodology was reasonable and stated that, "Forward-looking costs have been recognized as promoting a competitive environment which is one of the stated purposes of the Act."[8] The Eighth Circuit reiterated that, "a forward-looking cost calculation methodology that is based on the incremental costs that an ILEC actually incurs or will incur in providing interconnection to its network or the unbundled access to its specific network elements requested by a competitor will produce rates that comply with the statutory requirement of § 252(d)(1) that an ILEC recovery its 'cost' of providing the shared items."[9]

5. The FCC has emphasized that when determining whether an RBOC's UNE rates satisfy the stringent requirements of 271 checklist item 2, an RBOC must concomitantly demonstrate that its UNE prices are "consistent with the public interest, convenience and necessity."[10] Relatedly, the FCC noted:

> the public interest requirement is independent of the statutory checklist and, under normal canons of statutory construction, requires an independent determination. Thus, we view the public interest requirement as an opportunity to review the circumstances presented by the applications to ensure that no other relevant factors exist that would frustrate the congressional intent that markets be open, as required by the competitive checklist, and that entry will therefore serve the public interest as Congress expected. Among other things, we may review the local and long distance markets to ensure that there are not unusual circumstances that would make entry contrary to the public interest under the particular

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6 *See Iowa Utils. Bd. v. FCC*, 109 F.3d 418 (8th Cir. 1996), 120 F.3d 753, 800, 804-06 (8th Cir. 1997), *aff'd in part, rev'd in part sub nom. AT&T Corp. v. Iowa Utils. Bd.*, 525 U.S. 366 (1999).

7 *AT&T Corp. v. Iowa Utils. Bd.*, 525 U.S. at 397.

8 *Iowa Utils. Bd. v. FCC*, 219 F.3d 744 (8th Cir. 2000), *cert. granted on other grounds sub nom. Verizon Communications, Inc. v. FCC*, 121 S. Ct. 877 (2001).

9 219 F.3d at 753.

10 47 U.S.C. § 271(d)(3)(C).

> circumstances of these applications. Another factor that could be relevant to our analysis is whether we have sufficient assurance that markets will remain open after grant of the application. While no one factor is dispositive in this analysis, our overriding goal is to ensure that nothing undermines our conclusion, based on our analysis of checklist compliance, that markets are open to competition.[11]

Hence, the public interest requires that before granting an RBOC's 271, a determination must be made as to (1) whether the New Hampshire market is open to competition, and (2) whether it will remain open to competition. It is not sufficient for 271 purposes merely to have TELRIC-compliant rates.

6. As a result, it is also critical that the rates be at a level at which competition can exist to comply with the "public interest" requirement of Section 271. In fact, in a ruling issued 3 weeks ago with regard to Kansas and Oklahoma, the U.S. Court of Appeals for the D.C. Circuit noted the importance, for purposes of a Section 271 analysis, of ensuring that rates comport not only with TELRIC requirements, but also with the public interest standard. The FCC had argued that because it found that rates complied with TELRIC, it need not consider whether they created a "price squeeze," in which CLECs could not profitably serve customers (particularly residential customers) with UNEs purchased at TELRIC rates. The Court of Appeals rejected this argument, noting that for Section 271 purposes:

> to the extent that an agency can confidently identify TELRIC rates only within some band, like those involved under conventional "just and reasonable" regulation, the possibility exists that the agency has chosen too high a point within the band.[12]

The Court directed that the FCC should consider whether the level for UNE rates-- fixed by the state commissions and approved by the FCC itself--precluded profitable entry. The Court noted:

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11 *SBC KS/OK Order* at ¶ 267.

12 *Sprint Communications Company, L.P v. FCC*, Nos. 01-1076, 01-1081 through 01-1084, *slip op.* at 5 (D.C. Cir. Dec. 28, 2001) ("*Sprint*").

> as the Act aims directly at stimulating competition, the public interest criterion may weigh more heavily towards addressing potential "price squeeze."[13]

If the cost of the inputs that Verizon charges are too high they could preclude the development of competition which, would not be in the public interest.

7. Verizon's UNE rates, however, fail to be forward looking because they do not reflect merger related savings and do not reflect a forward looking cost of capital.[14] In addition, when compared with neighboring Verizon's states, Verizon's rates are tremendously excessive and fall outside any range of reasonableness that true TELRIC based ratemaking would produce. Moreover, Verizon's UNE rates are not in the public interest because the excessive rates Verizon charges thwarts local competition as contemplated by the Act. As a result, Verizon's UNE rates do not satisfy checklist item 2 or the associated 271 public interest requirements.

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13 *Id.* at 6.

14 BayRing does not join in any of the discussion herein concerning Cost of Capital.

A. Verizon's UNE Prices are Inappropriately Inflated Because They Do Not Reflect Merger Savings

8. When Bell Atlantic merged with NYNEX and when Bell Atlantic merged with GTE, the parties made a number of public declarations, often under oath or with penalty for misrepresentations, about the savings that would result – and have resulted – from these mergers. Although Verizon purports that its UNE rates are forward looking, Verizon has not accounted for operating cost savings it represented to regulators and the public at large that it will enjoy as the result of its efforts at process reengineering and its mergers with NYNEX and GTE. Moreover, the Commission's decisions in DT 97-171 fail to recognize the significance of cost savings in UNE rates and, therefore, Verizon's UNE rates are not forward looking or checklist compliant.[15]

9. Relatedly, the Rhode Island Public Utilities Commission ("RIPUC") reduced rates by 7.11% to reflect the savings from mergers and process re-engineering activities.[16] The RIPUC stated that, "it is entirely appropriate, for purposes of TELRIC-compliant rates…to examine Verizon's initial estimates of *forward looking* costs with those that might have been estimated after the *forward-looking* cost savings of the merger are considered." In arriving at the 7.11 % across the board UNE rate reduction, the RI PUC noted that the Division used publicly available documents and calculated the annual expense savings as a calculated the annual expense savings as a result of the merger and process re-engineering, as follows:

> BA's cost studies purport to be forward-looking, yet BA has not accounted for operating cost savings it represented to regulators and the public at large that it will enjoy as the result of its efforts at process reengineering and its mergers with NYNEX and with GTE. For example, BA neglected to reflect in its proposed interconnection and UNE prices the on-going cost savings from BA's efforts at

15 *See* DT 97-171, Order, No. 23,737 (July 6, 2001), Order Addressing Motions for Reconsideration, No. 23, 847 (Nov. 21, 2001).

16 *In Re: Review of Bell Atlantic-Rhode Island TELRCI Study*, Docket No. 2681, Report and Order, at 69-73 & 76 (R.I. P.U.C. Nov. 18, 2001) (*"RI PUC Verizon TELRIC Merger Savings Decision"*), *available at* http://www.ripuc.state.ri.us/order/pdfs/VRI2681TELRICord16793.pdf.

process reengineering which, according to Mr. Globerson testifying on behalf of AT&T, is expected to amount to $400 Million annually.

BA did not reflect in its forward-looking cost studies the anticipated annual system-wide savings of $600 Million that it projects will result from the BA-NYNEX (a/k/a "The New Bell Atlantic") merger, and some $2.0 Billion annual system-wide savings that it expects to result from the New Bell Atlantic merger with GTE. These figures are not mere speculation by BA; in fact, the estimates are likely to be somewhat conservative in their magnitude because, under securities law, BA may not include speculative information in its public statements. BA and NYNEX represented the $600 Million annual expense savings to the FCC and other regulators in order to justify the merger. *Merger Order* at ¶ 160 ("Bell Atlantic and NYNEX contend that the proposed merger will produce substantial cost savings that are 'hard, real, and certain'"); ¶161 ("Applicants expect to achieve annual cost savings that approach $1 billion per year").

The annual expense savings which BA has publicly represented that it will enjoy due to its process reengineering efforts and its merger activities are not reflected in the prices which BA-RI proposes to charge its competitors for interconnection and UNEs. The Division has determined, directly from publicly available documents, that BA-RI's share of the savings from the two mergers discussed above represents 5.60 percent of BA-RI's annual operating expenses, including deprecation and taxes. Also, from publicly available documents, the Division has determined that BA-RI's share of the system-wide savings from process reengineering constitutes an additional 1.51 percent of BA-RI's operating expenses, including depreciation and taxes; the calculations and sources of the information used to develop these savings percentages are shown at Exhibit A, also attached hereto. *This total 7.11 percent (5.60 percent plus 1.51 percent) should be deducted from the interconnection and UNE costs that the Commission otherwise finds applicable to the interconnection and unbundled network elements at issue here. More specifically, to effect its recommendation, the Division proposes that the Commission apply a factor of 0.9289 (1 minus 0.0711) to the interconnection and UNE costs determined without recognition of the savings from the mergers and process reengineering activity.*[17]

10. The RI PUC correctly did not consider merger costs in assessing merger savings. "Merger costs" such as a special pension enhancement for "downsized" employees are backward-looking, not forward looking. A forward looking Verizon would not have had the excess employees in the first place. The correctness of this position was recently confirmed by

[17] *RI PUC Verizon TELRIC Merger Savings Decision* at 69-73. Referenced sections of the Division's Initial Brief and Exhibit A are attached hereto as Exhibit A.

the Recommended Decision of an Administrative Law Judge of the New York Public Service Commission.[18]

11. Using the same approach taken by the RI PUC and substituting Rhode Island specific expenses with New Hampshire specific expenses, Verizon-NH's share of the savings from the two mergers represents a 5.06% of Verizon's annual operating expenses, including depreciation and taxes.[19] In addition, Verizon's share of system-wide savings from process reengineering constitutes an additional 1.37% of Verizon-NH's operating expenses, including depreciation and taxes. The total being 6.43% (5.06 % plus 1.37 %). Similar to the RIPUC decision to reduce Verizon-RI's UNE rates in this manner and make them forward-looking as required by law and compliant with 271 checklist item 2, the Commission should follow suit and reduce Verizon NH's UNE rates by 6.43% and, in doing so, multiply UNE rates by .936 (1 minus 0.0643) which is how the RI PUC applied the savings.[20]

B. Verizon's UNE Prices Are Inappropriately Inflated Because They are Based on an Overblown Cost of Capital

12. Over four years ago, the Commission instituted its UNE cost proceeding, DE 97-171, and, on November 21, 2001, rendered an order on reconsideration that established the final UNE rates in that proceeding.[21] The cost of capital in that proceeding was based upon a now 4-year old stipulation between Staff and Bell Atlantic to adopt a cost study performed by Staff's consultant that based upon data is now approximately six years old. Because significant time has

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18 *See also, Proceeding on Motion of the Commission to Examine New York Telephone Company's Rates for Unbundled Network Elements*, NY PSC Case No. 98-C-1357, Recommended Decision of Administrative Law Judge Joel A. Linsider at 61 (May 16, 2001) ("*NY PSC UNE Decision*").

19 See Exhibit B.

20 The Hearing Examiner in the Maine Public Utilities Commission proceeding addressing Verizon Maine's UNE rates ruled today that "since the FCC's TELRIC pricing standard requires forward-looking estimates," Verizon's common cost factor would be modified from .66 percent to .594 percent "to reflect efficiency gains that have been achieved subsequent to 1995, including efficiencies gained through the merger," a reduction of 10%. *Investigation of Total Element Long-Run Incremental Cost (TELRIC) Studies and Pricing of Unbundled Network Elements*, Maine PUC Docket No. 97-505, Examiner's Report at 37 (Jan. 18, 2001).

past since that rate was developed, the 10.46 % cost of capital used in deriving the UNE rates is backward looking rather than forward looking since it is based upon a pre-recessionary and explosive growth cycle where returns on investment where far greater than those seen today. With the obvious and prevalent uncertainties in the current financial marketplace, it is common knowledge stockholder expectations regarding their return on investment have dramatically deflated. Therefore, UNE rates established in DE 97-171 are not forward looking but rather are impermissibly inflated because they are based on an excessive cost of capital. As a result, Verizon's UNE prices do not comply with checklist item 2.

13. By way of background, the backward looking cost of capital that Verizon's UNE rates are based derives from the following capital structure:

Type of Capital	**Ratio**	**Cost Rate**	**Weighted Cost**
Debt	39.35%	7.01%	2.758%
Equity	60.65%	12.70%	7.703%
	100.00%		10.461%

14. Tellingly, to the disadvantage of CLECs, the 10.46% weighted cost of capital that Verizon currently enjoys in its UNE rates is entirely excessive when compared to the 8.8% weighted cost of capital ordered by the New Jersey Board of Public Utilities ("NJBPU") on December 17, 2001.[22] In comparison, this rate is 1.66 percentage points lower or than the four year old 10.46% rate currently applied by Verizon. Moreover, the updated 8.8% cost of capital adopted by the NJBPU is based on a sensible 10% cost of equity whereas the antiquated 10.46%

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[21] BayRing does not join in the cost of capital section.

[22] *In the Matter of the Board's Review of Unbundled Network Elements Rates, Terms and Conditions of Bell Atlantic New Jersey, Inc.*, Docket No. TO00060356, Summary Order of Approval, at 5 (N.J. B.P.U. December 17, 2001), *available at* http://www.bpu.state.nj.us.

cost capital used by Verizon is based on an overblown and unrealistic12.7% cost of equity.[23] Unbelievably, Verizon's current cost of equity is 2.7% percentage points or 27% higher than the cost of equity recently adopted by the NJBPU.

15. Obviously, for UNE prices to be forward looking and TELRIC compliant, the weighted cost of capital that drives the establishment of UNE rates must also be forward looking. In this case, the cost of capital used by Verizon is entirely outmoded and needs to be revised and updated. Significantly, if Verizon changed its cost of equity from the towering 12.7% to the same 10% cost of equity ordered by the NJBPU and kept all other factors the same, Verizon's weighted cost of capital would drop to 8.823%, which coincidentally, is almost precisely equal to the rate adopted by the NJBPU. To further illustrate,

Type of Capital	**Ratio**	**Cost Rate**	**Weighted Cost**
Debt	39.35%	7.01%	2.758%
Equity	60.65%	10.00%	6.065%
	100.00%		8.823%

Indeed, the 8.8% ordered by the NJBPU is a good proxy for the Commission to use in determining if Verizon's cost of capital and resulting UNE rates are inflated - which in this case - they unequivocally are. Moreover, the above illustration further demonstrates that Verizon's cost of equity needs to be reduced at a minimum to 10% for Verizon's rates to be truly forward looking and TELRIC complaint. Therefore, the Commission should hold that Verizon's UNE prices are noncompliant with 271 pricing checklist requirement and should cure the problem by taking administrative notice of the NJBPU's recent decision and ordering that UNE rates be based on a similar 8.8% cost of capital.

23 *See* DT 01-206, RR-9 page 7 of 52.

C. Verizon's UNE rates, when compared with neighboring Verizon's states, are tremendously excessive and fall outside any range of reasonableness that true TELRIC based ratemaking would produce.

16. To further demonstrate the non-forward looking nature of Verizon's rates, Verizon's UNE loop rates are unusually excessive, as illustrated below, when compared to Vermont UNE loop rates and those in other adjoining and comparative states in the Verizon footprint. In fact, Verizon's UNE loop rates, as a general matter, tremendously exceed the UNE loop rates of the other sampled Verizon states. Because loop rates are a general barometer of whether other UNE rates are reasonable and because Verizon's loop rates exceed the loop rates established by neighboring state commissions, the Commission should recognize that Verizon's UNE rates, as a general matter, are unreasonable and do not meet the requirements of 271 Checklist Item 2.

17. Significantly, the FCC has stated that "when a state commission does not apply TELRIC or does so improperly (e.g. there was a major methodological mistake or incorrect input or several smaller mistakes or incorrect inputs that collectively could render rates outside the reasonable range that TELRIC would permit), then the FCC will look to rates in other section 271-approved states to see if rates nonetheless fall within the range that a reasonable TELRIC-based ratemaking would produce."[24] In prior 271 applications in Kansas, Oklahoma and Pennsylvania, the FCC compared rates in other states when assessing checklist compliance regarding UNE pricing.[25]

18. The FCC determined that a comparison is permitted when there is a: 1) common BOC; 2) geographic similarities; 3) generally similar rate structures; and 4) the rates in the comparison

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[24] *In the Matter of Application by Verizon Pennsylvania Inc., Verizon Long Distance, Verizon Enterprise Solutions, Verizon Global Networks Inc., and Verizon Select Services Inc. for Authorization To Provide In-Region, InterLATA Services in Pennsylvania*, (CC Docket No. 01-138), ¶ 63 ("*Pennsylvania 271 Order*").

[25] *Pennsylvania 271 Order* at ¶¶ 62-68; *Joint Application by SBC Communications, Inc., Southwestern Bell Telephone Company, and Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance for Provision of In-Region, InterLATA Services in Kansas and Oklahoma*, CC Docket No. 00-217, Memorandum Opinion and Order, FCC 01-29, (Jan. 22, 2001) ¶ 82 ("*SWBT KS/OK 271 Order*").

state have already been found to be reasonable.[26] Similar to the FCC's 271 determination in the Pennsylvania 271 proceeding, even if there are geographic differences between New Hampshire and the other comparative states, at least three of the four criteria still apply. New York, Connecticut, Massachusetts and Pennsylvania have all received section 271 approval; their UNE rates have been deemed reasonable; they share a common BOC; and there are arguably similar rate structures in some respects. So at the very least, comparison of New Hampshire UNE rates to the rates considered in these 271-approved states is absolutely appropriate in determining whether Verizon's UNE rates are reasonable which they are not.

Zones	NH	VT	NY RD	NY & CT Approved	MA	PA	RI	NJ
1	$11.97	$7.72	$6.95	$11.83	$7.54	$10.25	$11.19	$8.12
2	$16.04	$8.35	$10.16	$12.49	$14.11	$11.00	$15.44	$9.59
3	$34.87	$21.63	$14.15	$19.24	$16.12	$14.00	$19.13	$10.92
4					$20.04	$16.75		

19. As the above comparison table (which also includes rates from Vermont, Rhode Island, and New Jersey, states in which Verizon has received favorable recommendations from the state PUCs, but not from the FCC) illustrates, Verizon-NH's UNE loop rates are far from being reasonable or forward looking by any standard. Tellingly, Verizon-NH's UNE loop rates for zones 1, 2, and 3 rates are 55%, 92% and 61% higher than the UNE loop rates ordered by the neighboring Vermont Commission and 47%, 67%, and 219% higher than the UNE loop rates recently ordered by the New Jersey BPU, respectively. In addition, when compared to Verizon states with 271 approval, Verizon-NH's UNE loop rates in zones 2 and 3 are 28.4% and 81.2% higher than the New York rates, 14% and 74-116% higher than the MA rates, 46% and 108-149% higher than the Pennsylvania rates, respectively. Although Verizon-NH zone 1 UNE loop

[26] *Pennsylvania 271 Order* at ¶ 63.

rate may be considered reasonable when compared to Verizon-New York's zone 1 UNE loop rate, the comparison is outmoded because the New York Recommended Decision evinces that Verizon-NH zone 1 rate is 72% higher than it should be.[27] As a result, it is abundantly clear through these comparisons that Verizon-NH UNE loop rates are excessive and demonstrate that Verizon's rates are not at all reasonable and are not truly forward looking as the Act and the FCC require.

D. Verizon's UNE Rates Do Not Satisfy the 271 Public Interest Standards Because the Rates are Too High to Open the Door For Local Competition in the Residential Marketplace and Certain Segments of the Business Marketplace

1. Verizon NH's UNE Rates Are Too High

20. As noted above, the U.S. Court of Appeals for the D.C. Circuit recently determined that in considering whether a Section 271 application meets the public interest standard, consideration must be paid to whether UNE rates are too high to preclude profitable entry in the residential marketplace.[28] Specifically, consideration must be paid as to whether UNE rates, even if they are TELRIC-compliant, are too high within the "band" of reasonable rates to preclude profitable entry.

21. A comparison of the UNE rates in New Hampshire with Verizon's retail rates demonstrate that UNE rates are set too high to preclude profitable entry in the residential marketplace and that they also foreclose profitable entry into certain segments of the business marektplace. As noted in ¶ 18, above, the rates for a two-wire analog link which will be the basic loop used for residential service, is $11.97 in the urban zone, $16.04 in the suburban zone,

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[27] The FCC has stated that "if the New York Commission adopts modified UNE rates, future section 271 applicants could no longer demonstrate TELRIC compliance by showing that their rates in the applicant states are equivalent to or based upon current New York rates." *Application of Verizon New England Inc., Bell Atlantic Communications, Inc. (d/b/a Verizon Long Distance), NYNEX Long Distance Company (d/b/a Verizon Enterprise Solutions) and Verizon Global Networks, Inc. for Authorization to Provide In-Region, InterLATA Services in Massachusetts*, CC Docket No. 01-9, Memorandum Opinion and Order, FCC 01-130, ¶¶ 29-30 (Apr. 16, 2001) ("*Verizon MA 271 Order*").

and \$34.87 in the rural zone.[29] Verizon's retail rates are broken down into five rate groups. The monthly residential rate for unlimited service in Rate Group A is \$11.15, Rate Group B is \$12.14, Rate Group C is \$13.29, Rate Group D is \$14.45, and Rate Group E is \$15.73.[30]Given these rates, Network Plus has been limited in its ability to proactively market to residential customers, and will generally only take on a residential customer if that customer's business is being served as well. Only 7.5% of its total lines sold in New Hampshire are residential.

22. The Verizon monthly retail business basic exchange service rate (unlimited) in Rate Group A is \$27.74, Rate Group B is \$31.75, Rate Group C is \$35.93, Rate Group D is \$40.31, and Rate Group E is \$44.67.[31] The rate for measured service is \$20.90 per month for all Rate Groups.[32]

23. In conducting a rate comparison, one must also take into account the other costs that a CLEC will incur in providing service to the particular customers. Foremost amongst these costs is the cost of collocation that the CLEC must incur to provide service to a customer. Physical collocation costs are comprised of non-recurring charges, recurring charges and time and materials charges.[33] The non-recurring charges cover construction and installation of cage facilities, provision of the Point of Termination ("POT") frame, and provision of engineering and administration tasks. The recurring costs include carrying charge factors for the POT frame,

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28 *Sprint,* slip op. at 4.

29 NH SGAT § 5.5.2.1.

30 Verizon New England Rates and Charges Effective In the State of New Hampshire, NH PUC Tariff No. 83, Part M, § 1.51.

31 Verizon NH PUC Tariff No. 83, Part M, § 1.5.1.

32 Most of Network Plus' lines are measured business lines so that would be the primary source of comparison.

33 *Petition for Approval of Statement of Generally Available Terms Pursuant to the Telecommunications Act of 1996,* Order Granting In Part and Denying in Part, Order No. 23,738 at 98 (July 6, 2001) ("*SGAT Order*").

building costs per square foot, and power investment per amp. The T&M costs include time and materials charges for pulling and splicing cable.[34]

24. The non-recurring collocation charges include an application fee that is equal to 25% of all non-recurring charges.[35] The non-recurring charges will also include a space conditioning charge, which ranges from $14,300 to $17,800 based on the size of the cage.[36] The POT Bay Frame NRC ranges from $300 to $1100.[37] A site survey costs $1086.[38] The Engineering and Implementation Fee is in the range of $1500.[39] So a CLEC is looking at over $21,000 simply in non-recurring charges in preparing a collocation space. This figure does not include the cost of the equipment that the CLEC will place in the collocation space. This figure also does not include recurring collocation charges, including the recurring costs of collocation power, which, as discussed in more detail below in Section III, is a significant cost driver. As of this date, the rate for collocation power is still undetermined.

25. In addition, the CLEC will experience marketing costs, billing and collection costs, switch and transport costs, and overhead expenses. When these costs are factored in, it becomes clear that there is no way that CLECs can enter the residential market or the suburban and rural zones of the business market in New Hampshire profitably.

2. Cost/Profitability Analysis

26. Attached as Exhibit C is a detailed cost analysis prepared by Lisa Korner-Butler of Network Plus which demonstrates how Verizon's UNE rates in New Hampshire will not promote competitive entry in residential markets, will preclude competition for business

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34 *Id.*
35 *See* NH SGAT § 4.5.15.2.1.
36 NH SGAT § 4.5.15.2.2
37 NH SGAT § 4.5.15.2.3
38 NH SGAT § 4.15.5.2.8
39 SGAT § 4.5.15.3.1

customers in rural areas, and will inhibit competition for business customers in suburban areas. While Ms. Butler prepared the analysis, Mr. Thayer concurs in it.

a. Methodology

27. Exhibit C is a cost and profitability analysis that takes Verizon's retail and UNE rates and determines the viability of market entry for a variety of services. Specifically the analysis looks at DS1 loops, flat rated and measured residential service via UNE-P (migration orders), flat rated and measured residential service via UNE-P (new orders), flat rated and measured residential service via UNE loops, UNE loop (1 loop orders), and UNE loop (2 to 9 loops orders). The analysis looks at the service by zones and determines whether it would be profitable for the CLEC to provide the particular service in the particular zone. This determination is made by examining whether a CLEC will be able to recoup the non-recurring charge paid to Verizon for providing service to a particular customer, and if so, how long it would take for the CLEC to recoup this cost. It should be noted that in addition to the nonrecurring charge paid to Verizon, CLECs have significant internal non-recurring costs associated with beginning service.

28. The figures used are based on the costs that a CLEC would experience on a general basis. Tab 1 (UNE) of Exhibit B provides a breakdown of what a CLEC's non-recurring and monthly recurring cost would be to serve a customer in the urban, suburban and rural zones in New Hampshire. The monthly cost per loop is determined by adding the monthly recurring charges ("MRC") for the loop and service access charges for the POT Bay Termination and Cable and Frame Terminations. The non-recurring charges are determined by adding applicable service order charges.

29. The analysis assumes 300 minutes of usage for business customers and 100 minutes of usage for residential customers. The POT Bay termination, cable and frame charges are factored

into the UNE cost (see Tab 1). Two overhead factors are used. A factor of 20.25% is used for UNE-P service, without OS/DA (since UNE-P does not include OS/DA) which is the avoided cost discount in New Hampshire for business service. This represents this Commission's calculation of the costs Verizon avoids when the CLEC assumes the sales, service, billing & collection, and other retail functions. Since in the resale context, both the CLEC and Verizon have customer service costs (and hence the CLEC's customer service cost will exceed Verizon's avoided customer service costs), the 20.25% figure is actually a very conservative estimate of the costs a CLEC incurs in performing the sales, service, billing & collection, and other retail functions. Nevertheless it should serve as a good (although somewhat understated) proxy for the overhead costs a CLEC would incur in providing UNE-P service.

30. In providing service via UNE loops, there are network expenses a CLEC incurs such as collocation, interconnection trunking, and switching costs. Thus, a higher factor of 32% is used for services provided via UNE facilities. This factor is also very conservative. In Comments to the FCC on Verizon's Section 271 application in New Jersey, WorldCom conducted a similar profitability analysis in light of the ruling in *Sprint*.[40] WorldCom noted that its internal costs for UNE-P service which include customer service costs, bad debt, billing & collection, overhead, marketing costs, and other operational costs typically exceed $10 per line per month, which is substantially larger than 32%.[41]

31. The approach of the analysis is to take the retail rate of Verizon and reduce it by 10%, which is what the CLEC would need to do to sell a competitive product. This figure represents the monthly revenue. The revenues derived from features that the CLEC will offer are also added to the revenue figure to comprise the total monthly revenue.

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[40] *Application of Verizon New Jersey, Inc., et al., for Authorization to Provide In-Region, InterLATA Services in New Jersey,* CC Docket No. 01-347, Comments of WorldCom, Inc. (Jan. 14, 2002).

32. The applicable factor (either 20.25% or 32%) is applied to the revenue figure. This determines the overhead costs. This figure is added to the UNE cost to determine the total cost of the service. The profit margin is then determined by comparing the revenues and the costs.

33. The payback figure is the months that it will take the CLEC to recover the installation costs of the facilities it purchases from Verizon to provide the service.

b. Findings

34. Tab 2 (DS1) provides a comparison of voice only DS1 service, data only DS1 service, and integrated voice/data DS1 service. The analysis suggests that while competitive provisioning of high capacity voice and data services is generally feasible in urban areas, there is a concern over the commercial viability of competitive provisioning of DS1 data-only and integrated voice/data service in rural areas. Given the desire to push broadband deployment into rural areas, the Commission may want to examine this area more closely.

35. Tab 3 (Residential UNE-P Migration) looks at providing residential service via UNE-P for customers that would be considered migration orders. Tab 4 (Residential UNE-P New) looks at providing residential service via UNE-P for customers that would be considered new orders. A comparison is done for both flat rated and measured service. A "migration" is the transfer of existing retail business or residential service of Verizon New Hampshire to the already combined UNEs that comprise the underlying service.[42] A "new" UNE-P is the connection of an existing loop and port not currently connected (but which is ordinarily combined in Verizon New Hampshire's network) for the provision of local exchange and associated switched exchange

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[41] *WorldCom Comments*, Declaration of Vijetha Huffman at ¶ 8.

[42] SGAT § 5.12.3.1 (A)(1).

access services to a specific business or residence end user.[43] A new UNE-P arrangement would be required when an end user orders an additional line(s) or is moving to a new location.

36. The results in Tab 3 and Tab 4 are quite disquieting. For flat rated, UNE-P migration service, the only profitable areas are Rate Groups D and E where the central office is considered to be in an urban area. For residential measured service on migration orders, there is no area where the CLEC can provide a competitive product.

37. For residential UNE-P orders considered new, there is an opportunity for profit in the same rate groups above, but only after 25 months (Rate Group E- Urban) and 57 months (Rate Group D – Urban). In all other areas, there is no hope for profitable service.

38. Tab 5 looks at providing residential service via UNE loops. The results are even worse than the residential service via UNE-P results. The only place a CLEC can achieve a profit is in Rate Group E- Urban and that is only after ***133*** months.

39. Thus, the only place a CLEC can profitably provide residential service in New Hampshire is for UNE-P migration orders in Rate Groups D and E where the central office is listed as urban. There are six exchanges that come under this classification, Concord, Durham, Somersworth, Manchester, Portsmouth, and Nashua. Essentially there is a prospect for viable residential competition in 6 out of 118 exchanges in New Hampshire. There are approximately 581,000 residential lines in New Hampshire (approximately ¾ of all lines) and 29% are in these exchanges.[44] For the rest of New Hampshire, there is no hope of residential competition.

40. Tabs 6 and 7 examine providing business service via 2-wire analog loops, UNE-P (new order), and UNE-P (migration). Tab 6 looks at situations where the customer orders one loop, and Tab 7 looks at when the customer orders 2 to 9 loops. Under all scenarios, business

[43] SGAT § 5.12.3.1 (A)(2).

[44] This information was derived from the PNR Access Line Model using information from 1999.

competition is not viable in the rural market. In the suburban market, it will generally take the CLEC five to six months, and in some cases as many as eight, before they recoup their costs for the customer, thereby limiting the attractiveness of those markets for CLECs.

41. Tabs 6 and 7 highlight the problems CLEC face in New Hampshire. The analysis demonstrates that only business service in urban markets provides prospects for profitable market entry. Thus, more CLECs will focus on these markets, which will create the need for deeper discounts. This will, in turn, further extend the time period necessary to recoup costs.

42. The comparison demonstrates that entry into the rural market will never be viable for CLECs. A CLEC would also probably forego entry via the UNE-P into suburban markets since it will have to operate at a loss for many months depending on the extent of the discount. Entry into the suburban market via UNEs is a marginal prospect at best since the CLEC would have to operate at a loss for 5 to 6 months. CLECs will not be able to afford to carry such losses for such an extended period, particularly if it loses the customer before it has fully recovered its costs.

43. CLECs are forced by the high UNE rates to be cream skimmers and focus primarily on business customers in urban, and perhaps suburban areas. As the above analysis demonstrates, this is a matter of necessity, not choice. Given the current UNE rates in New Hampshire, a CLEC cannot viably enter the residential market or the rural business market.

44. The only way the Commission can create more balanced competition that will permeate all markets is if it lowers UNE rates to a level that will promote competitive entry in those markets.

3. National Regulatory Research Institute Survey of UNE Rates

45. The above analysis is corroborated by a recent survey conducted by the National Regulatory Research Institute (NRRI) in July 2001.[45] The NRRI conducted a survey of UNE prices in all 50 states. The NRRI also conducted a comparison between UNE and retail rates by state.

46. Since the survey was completed in July 2001 it does not reflect the updated UNE rates in New Hampshire so there are some differences. For Zone 1, the NRRI survey had a UNE loop rate of $14.01 while the current rate is $11.97. For Zone 2, the NRRI survey had a UNE loop rate of $15.87 while the current rate is $16.04. For Zone 3, the NRRI survey had a UNE loop rate of $24.09 as opposed to the current rate of $34.87.

47. The NRRI determined an average cost to serve residential customers for CLECs by adding the monthly loop rate, port rate, and switching cost.[46] The monthly switching cost was based on usage of 1,000 minutes per month.[47] Verizon's retail rates were taken from the FCC Reference Book on Rates, Price Indices, and Expenditures for Telephone Service.[48] The total UNE cost was then presented as a percentage of the Verizon retail rate.

48. In New Hampshire, the total UNE cost was 114.8% of the Verizon residential rate in Zone 1, 122.1% of the residential rate in Zone 2, and 160.8% of the residential rate in Zone 3.[49] This is in stark contrast to three states in which Verizon has obtained Section 271 authority.[50] In New York, the total UNE costs are 63.5%, 65.9%, and 91.0% of the residential rates for the three

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[45] A copy of the report can be found at: http://www.nrri.ohio-state.edu/programs/telcom/pdf/matrix-07-01-01.pdf

[46] *See* Tables 3 and 4 of NRRI Survey.

[47] *See* NRRI Survey, Table 3, page 6.

[48] *Id.*

[49] *See* NRRI Survey, Table 3, page 4.

[50] Verizon has also received Section 271 authority in Connecticut but it is not the predominant ILEC in that state and only provided service in a limited region adjacent to New York City.

zones respectively.[51] In Massachusetts, the total UNE costs are 51.0%, 77.3%, 85.3%, and 100.9% of the residential rates for four zones respectively.[52] In Pennsylvania, the total UNE costs are 71.0%, 74.6%, 89.2%, and 106.2% of the residential rates for four zones respectively. In New Hampshire not only do the UNE costs exceed the retail rate, they exceed the retail rate significantly. It is clear that UNE rates are set too high to promote competitive entry into the New Hampshire residential market, much less profitable entry.

49. The NRRI rate comparison did not take into account the other costs CLECs incur to provide service such as collocation. Collocation costs, in particular, demonstrate the type of Catch-22 situation CLECs face. CLECs need more customers to spread the cost of collocation and try to provide a more competitive price to customers for its service. The high cost of UNEs, however, impede the ability of CLECs to enter the market, much less obtain these customers. CLECs cannot get the customers to provide a more competitive product until the UNE costs are lowered.

50. Thus, CLECs in New Hampshire face the classic price squeeze situation that concerned the D.C. Circuit and will imperil Verizon's application before the FCC. The situation can be rectified, however, if the Commission applies the cost of capital and merger savings as proposed *supra*. These modifications should make UNE rates not only more TELRIC-compliant, but bring the rates sufficiently within the band of reasonableness to promote competition and the public interest.

51. Another reason why UNE rates for loops are too high is due to Verizon's double recovery of capital costs through its loop and dark fiber charges. As elicited in the January 17th hearing in

[51] *Id.*

[52] *See* NRRI Survey, Table 3, page 3.

Docket No. DT 01-206, Verizon is currently recovering capital costs for fiber through its loop charges, transport charges and dark fiber charges.

52. For instance, as recognized by the Facilitator at the January 17, 2002 hearing in DT 01-206, if a cable has 24 strands, 16 of which are in use as lit fiber (transport or loops) (using for purposes of this example a 66.67% fill factors), the capital cost of the 8 dark strands is fully recovered in prices for UNE loops or transport. If Verizon then sells 2 of the dark fiber strands, using its proposed 80% fill factor for dark fiber, it would be recovering the capital cost of 2.5 additional strands, for a total recovery of 24+2.5=26.5 strands, while paying for only 24 strands. The recovery of costs for 26.5 strands when only 24 strands of costs are incurred is an overrecovery.

53. Even if Verizon were to use a fill factor for dark fiber of 100%, it would recover capital cost of 2 strands of dark fiber plus 24 strands in loop or transport, for a total of 26 strands, which is still an overrecovery, since only costs for 24 strands are incurred. Thus, to avoid overrecovery, rates for loops and transport must be adjusted downwards to reflect *any* recovery of capital costs that is included in dark fiber pricing. Since dark fiber prices have not yet been set, we are unable to estimate the amount of overrecovery that will result from this, but the Commission should adjust loop and transport prices accordingly once the dark fiber prices are set.

E. Verizon's High UNE Rates Preclude the Use of the UNE Platform as A Market Entry Strategy

54. The Unbundled Network Element – Platform ("UNE-P") is defined as loop and port combinations previously utilized by Verizon New Hampshire to provide local exchange and associated switched exchange access services.[53] The UNE-P consists of the unbundled local

[53] SGAT § 5.12.1.1.

loop, unbundled local switching, unbundled shared trunk port and common (shared) transport, signaling systems and call related databases, optional directory assistance services and operator services, and optional dedicated trunk port.[54] The monthly recurring price for the UNE-P is based on the applicable recurring rate for each separate network element of the UNE-P arrangement coupled with applicable usage charges.[55] Two significant cost drivers of the price for the UNE-P will be the recurring charge for the unbundled local loop and unbundled local switching.

55. In Docket No. 97-171, significant challenges were raised to the price Verizon charges for unbundled loops and switching. AT&T noted that the Telecom Model for costing loop rates adopted by the Commission yielded a "statewide average loop rate that is 17.8% higher than the statewide average loop rate provided by the Verizon model, when the Commission-approved 15% common cost factor is applied."[56] AT&T was joined in this challenge by BayRing and Network Plus. The resulting inflated loop rates that the Telecom Model created are seen in the comparison of loop rates provided *supra* in ¶ 18.

56. AT&T also challenged the recovery of "getting started" switching costs such as switch port investment on a usage-sensitive basis. AT&T proposed that such costs be recovered via a fixed monthly rate that does not vary with actual usage such as in the way line port costs are recovered.[57]

57. High loop rates coupled with high usage rates will detrimentally impact the viability of the UNE-P product. CLECs will be impacted in their ability to serve both low-volume and high-volume customers via UNE-P. The high loop rates will serve as an impediment to serving the low-volume customer, and the high usage rates will penalize the high-volume customer. The

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54 SGAT § 5.12.1.2.

55 SGAT § 5.12.4.

56 DT 97-171, Order Addressing Motions for Reconsideration, Order No. 23,847 at 6 (Nov. 21, 2001) ("*SGAT Reconsideration Order*").

analysis provided in Exhibit C demonstrates how the high UNE rates undermine the effectiveness of UNE-P as a market entry strategy.

58. As WorldCom noted in its Comments to the FCC on Verizon's Section 271 application in New Jersey, a principal driver in UNE-P costs is cost of switch usage.[58] WorldCom notes that recent years have seen a trend in increased local residential usage which has led to increases in local originating switch usage. The effect of this increased usage is that unbundled local switching rates have a much greater effect on the total price of the UNE-P.[59]

59. The NRRI Survey showed an average monthly UNE switching cost of $7.92 in New Hampshire based on 1,000 MOU. In New York, Massachusetts, and Pennsylvania, the average monthly switching costs are $2.75, $3.30, and $1.71 respectively.[60] Thus, New Hampshire's excessive switching costs coupled with its high loop rates not only impedes the use of UNE-P, it effectively precludes it.

60. The manner in which the price squeeze is foreclosing competitive entry is seen in the fact that as of May 2001, Verizon NH had only 25,600 stand-alone loops in service and approximately 4,300 loops provided as part of UNE-P combinations that include switching and transport elements.[61] At the time of Verizon's application in Pennsylvania it had provisioned over 220,000 UNE-Platform combinations.[62]

61. The Commission in a October 15, 2001 Order[63] initiated a docket to address tariffs filed by Verizon New Hampshire to provide additional network elements and network element

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57 *Id.* at 26-27.

58 *Application of Verizon New Jersey, Inc., et al., for Authorization to Provide In-Region, InterLATA Services in New Jersey,* CC Docket No. 01-347, Comments of WorldCom, Inc., Declaration of Vijetha Huffman at ¶ 9 (Jan. 14, 2002).

59 *Id.*

60 NRRI Survey, Table 3, pages 3-5.

61 Docket No. DT 01-151, Verizon-NH Checklist Declaration at ¶ 134.

62 *Pennsylvania 271 Order* at ¶ 74.

63 NH PUC Docket No. DT 01-206, Order of Notice (Oct. 15, 2001).

combinations as required by the Federal Communications Commission ("FCC") in its *UNE Remand Order*.[64] In that proceeding, the Commission, among other things, is addressing non-recurring charges for UNE-P. Network Plus, along with CTC Communications Corp., Covad Communications Company, and the New Hampshire Office of Consumer Advocate have participated in that proceeding.[65]

62. The Facilitator's report in Docket No. DT 01-206 recognized the logic of CLEC arguments that Verizon was utilizing invalid modeling assumptions for UNE-P non-recurring charges by including inapplicable central office wiring and installation costs.[66] Verizon, however, was allowed to continue its overrecovery of these costs. The Facilitator's Report will further impede the commercial viability of UNE-P as a residential and business market entry strategy by allowing Verizon to recover in its non-recurring charges invalid costs.

63. The UNE-Platform is the most broad-based entry strategy for serving most residential and small business customers,[67] and is the entry strategy most likely to ignite competition in those markets.[68] Verizon, and this Commission, when Verizon's application goes before the FCC, will have to establish that its rates for UNE-P are not only TELRIC-compliant, but also

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64 *Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, FCC Common Carrier Docket No. 96-98, Third Report and Order and Fourth Further Notice of Proposed Rulemaking (1999) ("*UNE Remand Order*").

65 *See* DT 01-206, Brief of CTC Communications Corp., Covad Communications Company, Network Plus, Inc. and New Hampshire Office of Consumer Advocate (Dec. 28, 2001) ("*DT 01-206 Brief*").

66 NH PSC Docket No. DT 01-206, Verizon's Petition for Approval of UNE Remand Tariffs for its Statement of Generally Available Terms and Conditions, Report of the Facilitator at 4 (January 3, 2002) at 185.

67 *In the Matters of Deployment of Wireline Services Offering Advanced Telecommunications Capability, Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorizations from Ameritech Corporation, Transferor to SBC Communications, Inc., Transferee, Common Carrier Bureau and Office of Technology Announce Public Forum on Competitive Access to Next-Generation Remote Terminals,* CC Docket Nos. 98-147, 96-98, 98-141, and NSD-L-00-48, Reply Comments of AT&T Corp. at p. 4; *see also Implementation of Local Competition Provisions of the Telecommunications Act of 1996*, Third Report and Order, CC Docket No. 96-98, FCC 99-238 at ¶¶ 253, 273, 296 (1999)("*UNE Remand Order*").

68 *See UNE Remand Order* at ¶ 273, fn. 543. In the first five months after Bell Atlantic New York started offering the UNE-Platform, MCI WorldCom acquired upwards of 60,000 new local residential customers.

that they are appropriately placed within the band of reasonable TELRIC rates to promote residential market entry. On the current record, no such showing will be possible.

F. RESALE OF VERIZON'S RESIDENTIAL SERVICE IS NOT A VIABLE ALTERNATIVE

64. First, the issue of whether resale provides an alternative to residential market entry is not dispositive in regard to whether an applicant meets the public interest standard. As the FCC has noted:

> In adopting section 271, Congress mandated, in effect, that the Commission not lift the restrictions imposed by the MFJ on BOC provision of in-region, interLATA services, until the Commission is satisfied on the basis of an adequate factual record that the BOC has undertaken all actions necessary to assure that its local telecommunications market is, and will remain, open to competition. In providing new entrants multiple avenues for entry into local telecommunications markets, Congress recognized that new entrants will adopt different entry strategies that rely to varying degrees on the facilities and services of the incumbent, and that such strategies are likely to evolve over time. Moreover, Congress did not explicitly or implicitly express a preference for one particular entry strategy, but rather sought to ensure that all procompetitive entry strategies are available. Our public interest analysis of a section 271 application, consequently, must include an assessment of whether all procompetitive entry strategies are available to new entrants.[69]

The Department of Justice has stated that an applicant must show that all three entry paths are "fully and irreversibly open to competitive entry to serve both business and residential customers."[70]

65. Second, as noted above, the D.C. Circuit has directed the FCC to consider whether the level for UNE rates-- fixed by the state commissions and approved by the FCC itself--precluded profitable entry. Thus, if the UNE rates are set too high to preclude profitable entry, the

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[69] *In the Matter of the Application of Ameritech Michigan Pursuant to Section 271 of the Communications Act of 1934, as amended, To Provide In-Region, InterLATA Services in Michigan,* CC Docket No. 97-137, Memorandum Opinion and Order, FCC 97-298, ¶¶ 386-387 (1997) ("*Ameritech Michigan 271 Order*").

[70] *In the Matter of Application by New York Telephone Company (d/b/a BellAtlantic – New York), et al., for Authorization to Provide In-Region, InterLATA Services In New York,* CC Docket No. 99-295, Evaluation of the U.S. Department of Justice at 7 (1999).

application would not be in the public interest regardless of the viability of resale in the residential market.

66. At any rate this is a moot point as both in theory, and in practice, resale of residential service has proven to be a non-viable alternative. First, Verizon seizes upon the limitation of resale obligations to telecommunications services to bundle unregulated services with telecommunications service. For instance, Verizon (then Bell Atlantic) has refused to allow CLECs to offer its voice mail service to CLEC customers. If a CLEC submits a resale order in which the customer subscribed to Verizon's voice mail service, Verizon will cancel the customer's voice mail service.[71] This action is taken despite the fact that CLECs were not asking Verizon to allow them to resell the voice mail service, but merely to allow the customer to continue to subscribe to the voice mail service. Verizon could bill the customer directly for the voice mail service. As soon as the CLEC's customer finds out that it cannot subscribe to Verizon's voice mail service and that the CLEC is unable to provide voice mail that includes Station Message Detail Indicator ("SMDI"), the customer will quickly retreat to Verizon.[72] One can see how Verizon uses its bundling capability to stifle resale competition.

67. Second, CLECs find it uneconomical to sell at the resale discount. As discussed above, the costs (particularly customer service costs) that a CLEC incurs with the resale customer are often greater than the retail costs the ILEC avoids. The expenses the resale carrier incurs in setting up a customer support staff to interact with both the customer and the ILEC is greater

[71] *In the Matters of Policy and Rules Concerning Interstate, Interexchange Marketplace, Implementation of Section 254(g) of the Communications Act of 1934, as amended, 1998 Biennial Regulatory Review*, CC Docket Nos. 96-61 and 98-183, Comments of Network Plus, Inc. at 8 (November 23, 1998).

[72] SMDI provides a message signal (i.e., stutter dial tone or message light) that is essential to most customers. SMDI has a high fixed start-up cost. *Id.* at 10. Once again, the Catch-22 is in place. The CLEC cannot offer fully comparable service to the ILEC until it gets more customers to defray the high fixed start-up costs. It cannot get more customers, however, until it offers services such as SMDI.

than Verizon's avoided customer service costs. Thus, the discount is too limited to make resale service viable for the CLEC.

68. Finally, as previously discussed, it will not be sufficient for the CLEC to offer a product at the same price as the ILEC. It has to provide the service at discount of at least 10% from Verizon's retail prices. This impedes, if not precludes, providing resale service at a profit.

69. The marketplace reality in New Hampshire bears out the lack of viability of resale as an alternative in the residential market. There are only 1,070 resold residential loops in New Hampshire.[73] Clearly, the road to residential competition is not via the resale path.

70. Furthermore, CLECs, such as BayRing and Network Plus, have invested millions of dollars of capital to bring facilities-based competition in regard to voice and data services. Resale with not allow CLECs to provide the data services that customers need and want.

III. COMPETITIVE CHECKLIST ITEM 1 (INTERCONNECTION): Verizon's Collocation Power Pricing Is Uncertain and Therefore Unreasonable

71. Checklist item 1 requires a BOC to provide "interconnection in accordance with the requirements of sections 251(c)(2) and 252(d)(1)."[74] Section 251(c)(2) requires incumbent LECs to provide interconnection "at any technically feasible point within the carrier's network ... on rates, terms, and conditions that are just, reasonable, and nondiscriminatory."[75] Section 252(d)(1) requires state determinations regarding the rates, terms, and conditions of interconnection to be based on cost and to be nondiscriminatory, and allows the rates to include a

[73] Verizon-NH Checklist Declaration at ¶ 386.
[74] 47 U.S.C. § 271(c)(2)(B)(i).
[75] 47 U.S.C. § 251(c)(2).

reasonable profit.[76] The FCC's pricing rules require, among other things, that in order to comply with its collocation obligations, an incumbent LEC provide collocation based on TELRIC.[77]

72. There is tremendous uncertainty as to collocation power rates given Verizon's attempts to take multiple bites at the apple until the Commission establishes collocation power pricing rates that are pleasing to Verizon.[78] In its July SGAT Order, the Commission determined that there was no incremental cost that Verizon could charge for DC Power.[79] This finding was based on the Commission's determination that Verizon had not shown that additional power equipment must be installed in order to meet CLEC needs.[80]

73. The Commission then considered the issue once more in response to Verizon's August 3, 2001 Motion for Rehearing. While allowing for the recovery of DC power costs, the Commission adjusted Verizon's proposed costs to make them TELRIC-compliant.[81] Still not satisfied with the results, by filing yet another motion for reconsideration, Verizon now seeks a third bite at the apple in its attempt to impose unreasonable rates for DC power in collocation sites.

74. BayRing has demonstrated to this Commission in Docket No. DE 97-171 why Verizon's third attempt to prove its case should be rejected.[82] What is of particular concern for purposes of this docket is the uncertainty that Verizon's repeated attempts at reconsideration create. The simple fact is that the Commission has thoroughly reviewed Verizon's cost support *to the extent*

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76 47 U.S.C. § 252(d)(1).

77 *See* 47 C.F.R. §§ 51.501-07, 51.509(g); *Local Competition First Report and Order*, 11 FCC Rcd at 15812-16, 15844-61, 15874-76, 15912, paras. 618-29, 674-712, 743-51, 826.

78 Network Plus, Inc. does not join in the section of the Pricing Declaration addressing collocation power.

79 *Petition for Approval of Statement of Generally Available Terms Pursuant to the Telecommunications Act of 1996*, Order Granting In Part and Denying in Part, Order No. 23,738 at 118 (July 6, 2001) ("*SGAT Order*").

80 *Id.*

81 DT 97-171, Order Addressing Motions for Reconsideration, Order No. 23,847 at 35-38 (Nov. 21, 2001) ("*SGAT Reconsideration Order*").

82 *See*, Docket No. DE 97-171, BayRing and Covad's Opposition to Verizon's Motion for Reconsideration and Clarification (Jan. 4, 2002).

that Verizon has provided such support, and has done the best it can to fix a reasonable rate. As the proponent of its proposed rates, Verizon has always had the burden of proof in supporting its rates; it is now far too late for it to object to the conclusions that the Commission has drawn from the scant cost support that Verizon has chosen to provide.

75. As of this date, the Commission has not ruled upon Verizon's motion. Until it rules on the motion, and rejects the motion, CLECs will continue to be penalized for the failure of Verizon to prove its case. Until the motion is ruled upon, the collocation power rates will, in effect, be interim, leaving CLECs with a tremendous amount of uncertainty as to what the ultimate rates will be.

76. Collocation power rates play a big role in determining the viability of serving particular customers. Prior to the Commission setting a $3.18 per amp rate, Verizon was charging CLECs $19.65 per amp. This translated into charges of roughly $6,000 per month for power for a single small collocation space.[83] Thus, unless CLECs can have certainty that just and reasonable collocation power charges are in place they will be inhibited in providing service to particular customers.

77. The analysis in the previous section demonstrated how tenuous the profit margins are in the New Hampshire marketplace. The threat that Verizon can succeed in its attempts to impose unreasonable DC power charges will further dampen competitive entry because imposition of such charges would render it cost-prohibitive to provide facilities-based service in certain areas.

78. The Commission needs to rule upon, and reject Verizon's motion. Until it does, there can be no finding that Verizon is meeting the requirements of Checklist Item 1 in regard to collocation power pricing. The FCC will look for assurance that any uncertainty created by

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[83] Docket No. DT 01-151, Reply Declaration of BayRing Communications at ¶ 2 (Nov. 27, 2001).

interim rates in regard to collocation pricing has been minimized prior to finding compliance with this Checklist Item 1.[84]

79. In addition, there are still disputes outstanding as to vast Verizon overcharges for collocation power that CLECs were unjustly and unreasonably billed by charging CLECs excessive rates. This situation was compounded by Verizon charging CLECs for collocation power they did not use.[85]

80. As a result of Verizon's billing practices and excessive rates, CLECs, and BayRing in particular, have been overbilled by hundreds of thousands of dollars. Until Verizon makes restitution to BayRing for this overbilling it cannot be deemed to have provided interconnection at rates that are just and reasonable. Therefore, it cannot be found to be in compliance with Checklist Item 1.

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84 *See SBC KS/OK 271 Order* at ¶ 240.

85 *See, generally,* Docket No. DT 01-151, Declaration of BayRing Communications at ¶¶ 12-21 (Oct. 1, 2001); Docket No. DT 01-151, Declaration of BayRing Communications at ¶¶ 1-18 (Nov. 27, 2001).

81. This concludes our declaration.

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Dated: January 18, 2002

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Verizon-NH 271 Application	)	Docket No. DT 01-151

EXHIBIT A OF BAYRING AND NETWORK PLUS

Excerpts from Initial Brief of the
Division of Public Utilities and Carriers in
Rhode Island Public Utilities Commission Docket No. 2681

exchange service providers in Rhode Island.

II. BELL ATLANTIC'S COST STUDY FAILS TO REFLECT THE SAVINGS THAT IT HAS ENJOYED AS THE RESULT OF ITS PROCESS REENGINEERING EFFORTS, FROM THE BA-NYNEX MERGER AND FROM SAVINGS THAT IT EXPECTS TO ENJOY AS THE RESULT OF THE NEW BA MERGER WITH GTE

A. The Facts

BA's cost studies purport to be forward-looking, yet BA has not accounted for operating cost savings it represented to regulators and the public at large that it will enjoy as the result of its efforts at process reengineering and its mergers with NYNEX and with GTE. For example, BA neglected to reflect in its proposed interconnection and UNE prices, the on-going cost savings from BA's efforts at process reengineering which, according to Mr. Globerson testifying on behalf of AT&T, is expected to amount to $400 Million annually. (Globerson pf. at 15; Exh. AT&T 19).

BA did not reflect in its forward-looking cost studies the anticipated annual system-wide savings of $600 Million that it projects will result from the BA-NYNEX (a/k/a "the New Bell Atlantic") merger,[4] and some $2.0 Billion annual system-wide savings that it expects to result from the New Bell Atlantic merger with GTE.[5] These figures are not mere speculation by BA; in fact, the estimates are likely to be somewhat conservative in their magnitude because, under

[4] *Bell Atlantic Corp. Definitive Merger Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934, dated September 9, 1996, page 17.*

[5] *Bell Atlantic Corp. Definitive Merger Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934, dated April 13, 1999, page I-25.*

securities law,[6] BA may not include speculative information in its public statements. BA and NYNEX represented the $600 Million annual expense savings to the FCC and other regulators in order to justify the merger. *Merger Order* at ¶ 160 ("Bell Atlantic and NYNEX contend that the proposed merger will produce substantial cost savings that are 'hard, real, and certain'"); ¶ 161 ("Applicants expect to achieve annual cost savings that approach $1 billion per year"). Id.

The Commission should impute the savings from the mergers and savings associated with BA's process reengineering efforts as reductions to the prices that the Commission would otherwise permit BA-RI to charge for interconnection and UNEs.

B. The Division's Recommendations

The annual expense savings which BA has publicly represented that it will enjoy due to its process reengineering efforts and its merger activities are not reflected in the prices which BA-RI proposes to charge its competitors for interconnection and UNEs. The Division has determined, directly from publicly available documents, that BA-RI's share of the savings from the two mergers discussed above represents 5.60 percent of BA-RI's annual operating expenses, including depreciation and taxes. Also, from publicly available documents, the Division has determined that BA-RI's share of the system-wide savings from process reengineering constitutes an additional 1.51 percent of BA-RI's operating expenses, including depreciation and taxes; the calculations and sources of the information used to develop these savings percentages are shown at Exhibit A. This total 7.11 percent (5.60 percent plus 1.51 percent) should be deducted from the interconnection and UNE costs that the Commission otherwise finds applicable to the

6 *17 C.F.R. § 240.14(a).*

interconnection and unbundled network elements at issue here. More specifically, to effect its recommendation, the Division proposes that the Commission apply a factor of 0.9289 (1 minus 0.0711) to the interconnection and UNE costs determined without recognition of the savings from the mergers and process reengineering activity.

III. THE FUNDAMENTAL APPROACH TO TELECOMMUNICATIONS CARRIER COST STUDIES

A. Introduction

As Mr. Weiss explains, the conduct of TELRIC studies is fundamentally much like that used traditionally throughout the telephone industry to determine costs and set prices; annual cost factors are applied to (multiplied by) incremental investment amounts to estimate annual costs which are then factored into monthly prices. (Weiss pf. at 6; Exh. Div. 1). However, where traditional cost/price analyses for the regulated telephone industry focused on current or historical (embedded) investment levels coupled with current or historic operating costs, as explained above, the TELRIC approach requires that prices be defined using investments in forward-looking technology coupled with estimates of the forward-looking cost of operating that technology.

B. Annual Cost Factors

Annual cost factors are developed on a plant account by plant account basis and designed so that they may be directly applied to a given incremental plant investment amount to produce an estimate of the cost to operate and support that amount of plant. The factors are developed so that the same factor can be used to estimate cost contributions of any category (type) of plant to

EXHIBIT A

INITIAL BRIEF OF THE DIVISION OF PUBLIC UTILITIES AND CARRIERS
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Bell Atlantic - Rhode Island Annual Cost Savings
From Process Reengineering and Mergers Activity

MERGERS:

1.	BA/GTE Merger Annual Savings	$2,000,000,000
2.	BA/NYNEX Merger Annual Savings	600,000,000
3.	Total Projected Annual Merger Savings	$2,600,000,000
4.	BA-RI Share of the Merged Entity	0.0111
5.	BA-RI SHARE OF TOTAL PROJECTED MERGER- RELATED SAVINGS	$28,880,032
6.	35% Composite State and Federal Income Tax Effect on Savings	(10,108,011)
7.	RHODE ISLAND ANNUAL NET CHANGE IN TOTAL EXPENSES AND TAX	$18,772,021
8.	1999 Rhode Island Total Telephone Expenses, including Tax	$334,972,558
9.	**MERGER-RELATED CHANGE IN TOTAL NET EXPENSES AND TAX**	**5.60%**

PROCESS REENGINEERING (PRE):

10.	Total Projected Annual BA/NYNEX PRE Savings	$400,000,000
11.	BA-RI Share of BA/NYNEX	0.0195
12.	BA-RI SHARE OF TOTAL PROJECTED PRE- RELATED SAVINGS	$7,796,621
13.	35% Composite State and Federal Income Tax Effect on Savings	(2,728,817)
14.	RHODE ISLAND ANNUAL NET CHANGE IN TOTAL EXPENSES AND TAX	$5,067,804
15.	1999 Rhode Island Total Telephone Expenses, including Tax	$334,972,558
16.	**PRE-RELATED CHANGE IN TOTAL NET EXPENSES AND TAX**	**1.51%**

SOURCES:

Line 1 Page 2, herein.
Line 2 Page 3, herein.
Line 3 Sum, lines 1 and 2.
Line 4 Page 4, herein.
Line 5 Line 3 times line 4.
Line 6 Minus 1.0 times Line 5 times RI composite marginal income tax rate of 35%.
Line 7 Line 5 plus line 6.
Line 8 BA-RI Earnings Statement, 12 Mo. Ended December 1999, Combined Operations
Line 9 Line 7 divided by line 8.
Line 10 Direct Testimony, Lee Globerson, RIPUC Docket No. 2681, page ___.
Line 11 Page 4, herein.
Line 12 Line 10 times line 11
Line 13 Minus 1.0 times Line 5 times RI composite marginal income tax rate of 35%.
Line 14 Line 12 minus line 13.
Line 15 Line 8.
Line 16 Line 14 divided by line 15.

companies, a substantial number of other multinational companies, the nation's media, government and financial centers and residential customers whose income and personal computer usage exceeds the national average. The combined company will be able to provide long distance and data services nationwide as part of a full package of other communications services.

The merger also mitigates the risks, capital outlays and deployment times that would be required for GTE and Bell Atlantic to develop these complementary assets and capabilities independently.

3. **The merger is expected to generate significant revenue, expense and capital synergies.**

The management and directors of each of our companies believe that the merger will result in significant opportunities for cost savings, revenue growth, technological development and other benefits. The combined company will achieve synergies through economies of scope and scale, the elimination of duplicative expenditures and the consistent use of the best practices of GTE, Bell Atlantic and the industry in cost control and product offerings.

Based on anticipated revenue and expense synergies, we expect that the merger will improve earnings per share, excluding merger-related charges, in the first year following completion. We estimate that the merger will also generate significant capital synergies, producing higher capital efficiency and higher cash flow and margin growth. By the third year after completion of the merger, we expect:

- annual revenue synergies of approximately $2 billion, primarily from improved market penetration for value-added services (e.g., call waiting and caller I.D.) and faster development of our data and long distance businesses, which, at an estimated operating margin of 25%, will produce $500 million in incremental operating income;
- annual expense synergies of approximately $2 billion, with savings generated from operating and procurement synergies, reduced corporate overheads, the migration of long distance traffic onto GTE's network, and greater efficiency in wireless operations; and
- annual capital synergies of approximately $500 million through volume purchasing and the elimination of certain capital costs associated with building a data network in Bell Atlantic's current territory.

We are targeting revenue growth of 8-10% and earnings per share growth of 13-15% (excluding merger-related charges) in each of the first two years following the completion of the merger. By the third year after the completion of the merger, we are targeting revenue growth in excess of 10% and earnings per share growth in excess of 15% (excluding merger-related charges).

In addition to direct incremental merger-related costs of approximately $375 million, we expect transition and integration charges to aggregate approximately $1.2 billion to $1.6 billion over the three years following completion of the merger. For additional information on direct incremental merger-related costs and transition and integration charges pertaining to the merger, see the "Unaudited Pro Forma Combined Condensed Financial Statements" in this Chapter I.

Both GTE and Bell Atlantic have proven track records in successfully and quickly integrating business operations. GTE today thrives as a highly focused, integrated company after a series of major acquisitions over the past decade, including the acquisitions of Contel Corporation in 1991 and BBN Corporation in 1997. Bell Atlantic and NYNEX formed a wireless joint venture in 1994. By 1996, the wireless joint venture achieved a market leadership position with innovative products, faster customer growth and sharply improved profitability, which were further enhanced when the two companies merged in 1997. The integration of Bell Atlantic and NYNEX is now largely complete, and the forecast efficiencies are being achieved successfully.

GTE Board of Directors' Consideration and Approval of the Merger

At meetings of the GTE Board of Directors held on July 26 and July 27, 1998, members of GTE's management and representatives of GTE's financial advisors made presentations concerning the business and

3.6 million wireless communications customers that will be served by New Bell Atlantic. Both of our Boards believe that in the future the most desirable and profitable partnering and investment opportunities in the developing domestic and international telecommunications industry will be available to companies possessing both significant scale and scope and substantial financial resources and capacity.

In the rapidly changing telecommunications industry, other companies have recognized the need for and the benefits of business combinations. Recent examples of this include AT&T's acquisition of McCaw Cellular Communications, Inc., U S WEST, Inc.'s ("U S WEST") proposed acquisition of Continental Cablevision, Inc., British Telecommunications plc's investment in MCI Communications Corp. ("MCI"), the joint venture between Sprint Corporation ("Sprint") and three major cable companies, and the proposed merger between SBC Communications, Inc. ("SBC") and Pacific Telesis Group ("PacTel").

- Attractive Marketplace. The combined domestic region of New Bell Atlantic -- thirteen northeastern and Mid-Atlantic States plus the District of Columbia (collectively, the "Combined Region") --

is one of the most communications-intensive marketplaces in the world. As a result of the Merger, New Bell Atlantic will enjoy greater geographic diversification than either NYNEX or Bell Atlantic by combining domestic local exchange operations in the Combined Region (reaching from Maine to Virginia), as well as complementary international operations and investments in Asia and the Pacific, the United Kingdom, Europe, Mexico and South America. This increased geographic diversification will reduce New Bell Atlantic's exposure to changes in economic, competitive, political and climatic conditions in any given geographic area in which New Bell Atlantic operates, as compared to the exposure of either company in the absence of the Merger.

- Long Distance Opportunities. New Bell Atlantic will be positioned to compete aggressively for more than $20 billion of long distance calls that originate annually within the Combined Region. The combined market potential is particularly significant with regard to long distance traffic, and New Bell Atlantic will be able to carry, over its combined network, a significantly higher volume of long distance traffic more economically than the two companies could carry independently. Both of our Boards view the potential in the international long distance marketplace as particularly significant. Customers located in the Combined Region of New Bell Atlantic account for approximately 35% of all United States international calls, with a high concentration of traffic moving to and from Canada, Europe and Japan.

- Potential for Long-Term Growth in Revenues, Earnings and Cash Flow Margins. We expect that, excluding special transition and integration charges, the Merger will be accretive to recurring earnings per share in the first year after consummation of the Merger. With an expanded presence in key communications and information markets, increased opportunities are expected for long-term growth in both revenues and earnings:

New Bell Atlantic is expected to recognize recurring expense savings of approximately $600 million annually by the third year following the consummation of the Merger as a result of consolidating operating systems and other administrative functions and reducing management positions. We expect to achieve $300 million of savings in the first year following the consummation of the Merger, and this amount is expected to grow by an additional $150 million in each of the two succeeding years. We expect transition and integration charges of approximately $500 million in the

Source: Bell Atlantic Corporation Definitive Merger Proxy Statement, 09/09/96

EXHIBIT A

INITIAL BRIEF OF THE DIVISION OF PUBLIC UTILITIES AND CARRIERS
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Bell Atlantic - Rhode Island Annual Cost Savings
From Process Reengineering and Mergers Activity

BA/NYNEX, Total Access Lines, by State -- 1999:

Washington, DC	1,017,699
Maryland	3,916,586
Virginia	3,769,745
Delaware	583,114
Pennsylvania	6,538,305
Maine	710,900
Massachucetts	4,517,291
New Hampshire	807,507
Rhode Island	673,186
Vermont	348,248
New York	11,654,739
Total BA/NYNEX	34,537,320
GTE System, Domestic Total Access Lines -- 1999	26,068,000
Merged System, Total Access Lines	60,605,320
Rhode Island as a Percentage of BA/NYNEX	**1.95%**
Rhode Island as a Percentage of Merged BA/NYNEX/GTE	**1.11%**

SOURCES:

Bell Atlantic and ARMIS Reports 43-08, 1999
Page 5, herein

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Selected Financial Data

GTE Corporation and Subsidiaries

(Dollars in Millions, Except Per-Share Amounts)	1999	1998	1997	1996	1995
Results of Operations					
Revenues and sales	$25,336	$25,473	$23,260	$21,339	$19,957
Cost of services and sales	10,954	10,741	9,203	8,071	7,537
Selling, general and administrative	4,405	4,821	4,560	4,010	3,689
Depreciation and amortization	3,757	3,820	3,886	3,770	3,675
Special items	(1,116)	755	—	—	—
Operating income	7,336	5,336	5,611	5,488	5,056
Net income (loss)					
Income before extraordinary charges	4,063[a]	2,492[b]	2,794	2,798	2,538
Consolidated	4,033[c]	2,172[d]	2,794	2,798	(2,144)[e]
Basic earnings (loss) per common share					
Income before extraordinary charges	4.18[a]	2.59[b]	2.92	2.89	2.62
Consolidated	4.15[c]	2.26[d]	2.92	2.89	(2.21)[e]
Diluted earnings (loss) per common share					
Income before extraordinary charges	4.15[a]	2.57[b]	2.90	2.88	2.61
Consolidated	4.12[c]	2.24[d]	2.90	2.88	(2.20)[e]
Common dividends declared per share	1.88	1.88	1.88	1.88	1.88
Book value per share	11.19	9.06	8.39	7.62	7.05
Average common shares outstanding (in millions)					
Basic	972	963	958	969	970
Diluted	979	968	962	972	973
Assets and Capital					
Consolidated assets	$50,832	$43,615	$42,142	$38,422	$37,019
Long-term debt	13,957	15,418	14,494	13,210	12,744
Shareholders' equity	10,827	8,766	8,038	7,336	6,871
Net cash from operations	6,319	5,890	6,164	5,899	5,033
Capital expenditures	4,940	5,609	5,128	4,088	4,034
Consolidated Ratios and Other Information					
Return on common equity	40.9%	27.3%	37.6%	40.2%	(20.3)%[e]
Return on investment	16.2%	10.9%	14.5%	15.6%	(4.2)%[e]
Average common equity	$ 9,858	$ 7,962	$ 7,433	$ 6,960	$10,539
Equity ratio	33.9%	35.4%	36.5%	38.1%	37.9 %
Average investment	$31,372	$28,662	$26,857	$24,395	$27,150
Research and development expenditures	131	159	122	122	137
Employees (in thousands)	99	120	114	102	106
Access minutes of use (in millions)	94,095	87,120	79,086	70,452	64,193
Access lines (in thousands)					
Total	35,342	29,746	27,670	25,766	24,050
United States	$\boxed{26,068}$	23,625	21,539	20,007	18,512
Wireless subscribers (in thousands)					
Total	13,873	7,567	5,701	4,445	3,547
United States	7,146	4,817	4,487	3,749	3,011
Adjusted "POPs" (in millions)[f]					
Total	107.3	84.8	78.9	78.3	76.7
United States	72.5	61.4	61.3	61.9	61.7

(a) 1999 includes after-tax special items of $651 million, or $.66 per diluted share ($.67 per basic share) consisting of gains from the sale of the Government Systems business and a gain associated with the merger of BC TELECOM Inc. and TELUS Corporation, partially offset by special charges associated with employee separation programs, impairment of assets and costs to exit certain small non-strategic businesses.

(b) 1998 includes after-tax special charges of $482 million, or $.50 per share related to asset impairments, the cost of exiting certain business activities and employee related costs.

(c) In addition to the items discussed in (a), 1999 includes after-tax extraordinary charges of $30 million, or $.03 per share resulting from the repurchase of $338 million in high coupon debt prior to stated maturity.

(d) In addition to the items discussed in (b), 1998 includes after-tax extraordinary charges of $320 million, or $.33 per share resulting from the discontinued use of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71), by GTE's Canadian operations, and the early retirement of long-term debt and preferred stock.

(e) During 1995, GTE's domestic telephone operating companies discontinued the use of SFAS No. 71 resulting in a noncash, after-tax extraordinary charge of $4.6 billion, or $4.77 per diluted share ($4.79 per basic share). In addition, GTE redeemed long-term debt and preferred stock resulting in an after-tax extraordinary charge of $41 million, or $.04 per share.

(f) Represents population available to be served times GTE's percentage interest in wireless markets.

Source: GTE 1999 Annual Report to Shareholders

EXHIBIT B -- Pricing Declaration of BayRing and Network Plus

BA/NYNEX, Total Access Lines, by State - 1999

Washington, DC	1,017,699	
Maryland	3,916,586	
Virginia	3,769,745	
Delaware	583,114	
Pennsylvania	6,538,305	
Maine	710,900	
Massachusetts	4,517,291	
New Hampshire	807,507	
Rhode Island	673,186	
Vermont	348,248	
New York	11,654,739	
Total BA/NYNEX	34,537,320	
GTE System, Domestic Total Access Lines - 1999	26,068,000	
Merged System, Total Access Lines	60,605,320	
		Rhode Island
New Hampshire as a Percentage of BA/NYNEX	2.34%	0.0195
New Hampshire as a Percentage of Merged BA/NYNEX/GTE	1.33%	0.0111

Bell Atlantic - New Hampshire Annual Cost Savings
From Process Reenginering and Merger Activity

		NH	RI
	MERGERS		
1	BA/GTE Merger Annual Savings	$2,000,000,000	$2,000,000,000
2	BA/NYNEX Merger Annual Savings	600,000,000	600,000,000
3	Total Projected Annual Merger Savings	$2,600,000,000	$2,600,000,000
4	BA-New Hampshire Share of the Merged Entity	1.33%	1.11%
5	BA-New Hampshire SHARE OF TOTAL PROJECTED MERGER-RELATED SAVINGS	$34,642,474	$28,880,032
6	35% Composite State and Federal Income Tax Effect on Savings	(12,124,866)	(10,108,011)
7	New Hampshire ANNUAL NET CHANGE IN TOTAL EXPENSES AND TAX	$22,517,608	$18,772,021
8	1999 New Hampshire Total Telephone Expenses, Including Tax	$444,840,000	334972558
9	MERGER-RELATED CHANGE IN TOTAL NET EXPENSES AND TAX	5.06%	5.60%
	PROCESS REENGINEERING (PRE)		
10	Total Projected Annual BA/NYNEX PRE Savings	$400,000,000	$400,000,000
11	BA-New Hampshire Share of BA/NYNEX	2.34%	1.95%
12	BA-New Hampshire SHARE OF TOTAL PROJECTED PRE-RELATED SAVINGS	$9,360,000	$7,796,621
13	35% Composite State and Federal Income Tax Effect on Savings	(3,276,000)	(2,728,817)
14	New Hampshire ANNUAL NET CHANGE IN TOTAL EXPENSES AND TAX	$6,084,000	$5,067,804
15	1999 New Hampshire Total Telephone Expenses, Including Tax	$444,840,000	$334,972,558
16	PRE-RELATED CHANGE IN TOTAL NET EXPENSES AND TAX	1.37%	1.51%